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SUBJECT: CASPIAN BASIN ENERGY AMBASSADOR MANN DISCUSSES
EAST-WEST ENERGY CORRIDOR NEXT STEPS WITH TURKISH ENERGY
OFFICIALS

REF: ANKARA 2721

Sensitive but unclassified -- not for internet posting.

1. (SBU) SUMMARY: On the margins of the IEA's Seminar "Natural Gas in South East Europe," May 5-6, in Istanbul, Ambassador Mann met with Energy U/S Sami Demirbilek and MFA DDG for Energy Hakki Akil to discuss U.S.-Turkish coordination in support of the East-West Energy Corridor. Turkish officials agreed to continue our strong cooperation on the East-West Energy Corridor, including urging Kazakh officials to link to the BTC pipeline, and working together to promote the Nabucco gas pipeline to Europe. Mann urged the Turkish officials to approve the license request of Thrace Development Corporation to proceed with plans for a Bosphorus bypass pipeline, and assured them there was not conflict with BTC. Although Akil was skeptical that the Thrace proposal could be built, Demirbilek told Mann that he had recommended that the Council of Ministers approve the license. End Summary.

BTC Problems

2. (SBU) Demirbilek said BOTAS subcontractor Tepe is having the most difficulty. Tepe officials claim they are losing money because of exchange rate changes and they think BP should compensate them. Mann responded that these issues should be in the contract, and should be settled on that basis. This issue cannot be allowed to cause further delays because that will cost the entire BTC consortium. Demirbilek assured Mann that Tepe will face significant fines if it causes a delay in the completion of BTC.

Caspian Producers

3. (SBU) Ambassador Mann emphasized that big policy issues remain to be solved on Caspian oil and gas. He urged Turkey to keep Caspian issues at the top of its priorities, adding that Turkey and the U.S. need to work together to solve the remaining problems. Demirbilek agreed, saying the U.S. and Turkey, as NATO allies, can sit side by side to complete the tasks, including bringing Kazakhstan's Aktau oil to BTC. (At an earlier meeting, Mann agreed with MFA Deputy U/S Alev Kilic that the two would meet together with Kazakh officials in Almaty to urge Kazakhstan to link its oil production to the BTC pipeline.) Mann noted that Kazakhstan's insistence on maintaining monopoly control of shipping oil across the Caspian was a problem. Demirbilek added that Kazakh gas fields should also be considered -- we could build a gas pipeline next to an Aktau-BTC connector, he suggested. Demirbilek said the Georgian Government is interested in a oil pipeline from the Russian port of Novorossiysk through Georgia to link to Turkey's Mediterranean port of Ceyhan. He added that the Russian have agreed to set up a working group on the project, but he doubted they were truly interested.

Natural Gas to Europe

4. (SBU) Mann stressed that the U.S. sees Turkey as an energy hub for natural gas to Europe. Demirbilek said that Nabucco gas pipeline through southeast Europe was being established by the national gas companies. Mann agreed that this was the best way to proceed and pledged to work together to support the effort. Mann raised the issue of Iranian gas being shipped via pipelines through Turkey to Europe. He re-affirmed U.S. opposition and warned that such Iranian-Turkish cooperation could end U.S.-Turkish cooperation on gas exports to Europe. Demirbilek suggested that gas that Turkmenistan is sending to Iran could be used to fill the demand in Europe and reduce European demand for Iranian gas. Mann was skeptical that any agreement could be

struck with Turkmenistan's President Niyazov.

Bosphorus Bypass Pipelines

15. (SBU) Mann urged Demirbilek and Akil to approve the application by Thrace Development Corporation for a license to build a bypass pipeline in Turkish Thrace. Demirbilek said that Energy Ministry forwarded its proposal to approve the license to the Council of Ministers, which must review the proposal and determine if it would conflict with BTC. (Turkey agreed with BTC not to support pipelines that would conflict with BTC.) Mann assured the Turks that BTC does not consider the bypass proposal to be in conflict with BTC. However, Akil voiced several other concerns. He said the Thrace project was unrealistic, because environmental groups would not permit a project to feed oil into the environmentally sensitive Saros Bay in the north Aegean, and Greek authorities would view the Thrace Bypass as competing with the Burgas-Alexandropolis option. He also was skeptical that Thrace could win enough commitments from oil shippers to go ahead. In his opinion, a proposed bypass midway along Turkey's Black Sea coast connecting to the Mediterranean port of Ceyhan was more likely.

16. (SBU) Mann responded that Thrace is ready to move forward -- unlike the promoters of the Ceyhan option -- and that the license would merely allow Thrace to move to the next stage of project development. He urged the Turks not to delay approval. Demirbilek said he recommended that the Council of Ministers approve the license, with the condition that after six months Thrace must demonstrate that it has adequate financing and throughput guarantees, so there was no risk to Turkey.

17. (U) This cable was cleared by Ambassador Mann.
EDELMAN